

Part II—Preparing the Cost Comparison Estimates

Chapter 1—Implementation Instructions

A. General.

Address requests for deviation from the following amplifying Navy requirements to CNO (N4). Requests should clearly indicate the special circumstances that require the change. The Navy cannot grant waivers or deviations from individual portions of the OMB Circular A-76 guidance or from the legal requirements listed in the appendix entitled Principal Statutes Governing CA. The Assistant Secretary of the Navy may waive the entire cost comparison as provided by OMB Circular A-76 provided the CA meets legal requirements as stated in the appendix entitled Principal Statutes Governing CA.

B. Organization

Chapter 2—Developing the Cost of Government Performance

A. General

1. Overview
2. Standard Cost Factors
3. Common Costs
4. Retained and Save Pay
5. Cost of Conducting a Cost Comparison
6. Proration of Performance Periods
7. In-House Costs
8. Minimum Cost Differentials

9. Rounding Rule

10. Inflation

11. Other ISSA Adjustments

B. Personnel (Line 1)

1. Military Billets. Activities will convert all military billets in the organization under study to civilian positions for the purpose of cost comparison unless the military positions will remain as a part of the MEO. Base the civilian grade level requirement on civilian grade standards and the nature of the performed work and not on any civilian-to-military grade relationship. If available, use advisory position classification guides for all proposed MEO positions. Actual position classification should include participation of HRSC/HRO personnel classification specialists in the assessment and development of MEO civilian grades and positions. Grade levels must be consistent with performance of the PWS.

2. Civilian Personnel. Express personnel requirements in full-time equivalent (FTE) workyears. When using productive hours as the basis for computing FTEs, use annual available hours for full-time positions and intermittent positions. Document the applied method in the management study when methods other than productive hours are used (i.e., manpower standards, staffing guides, prior experience, work measurement, etc.). Express salary/step for pay banded or demonstration project employees at the mid-grade or mid-band level.

3. Temporary Employees. Do not interpret the authority to make and extend temporary limited appointments as approval for costing the MEO positions as temporary if work described in the PWS is not of a temporary nature (i.e., work that is seasonal, variable, or of short duration). Cost work of a continuing and recurring nature as permanent positions although these positions may be encumbered with temporary employees at the time of PWS and MEO development.

4. Nonappropriated Fund Employees. Apply the following fringe benefit factors when computing the cost of NAF labor:

FRINGE BENEFIT	FULL TIME	PART TIME	INTERMITTENT
Retirement	7.65	7.65	7.65
Insurance/Health	8.7	6.2	0.0
Miscellaneous*	3.5	5.1	6.5

*This includes workman's compensation, bonuses/awards, and unemployment programs.

5. Service Contract Act/Davis Bacon Act: Commercial activities' contracts may require the application of the Service Contract Act (SCA) or the Davis-Bacon Act (DBA). Determine the applicability of either Act based upon historical records or projected work estimates. When SCA/DBA applies, the contracting officer must obtain the latest appropriate wage determination and place it in the solicitation package. Most standard wage rates can be obtained through DoD's WDOL system. For all other wage rates, use the procedure at FAR 22.10. If the solicitation is delayed by more than 60 days, the contracting officer must query the WDOL system to ensure that the solicitation contains the appropriate wage determinations. *DFARS 222.402-70*. When the nature of the work is clearly service related, the SCA will apply regardless of dollar value. Installation support services such as building maintenance, grounds maintenance, plant operations, custodial services, and snow removal may be subject to both the SCA and DBA. The DBA type work performed in conjunction with routine maintenance and with a cost of \$2,000 or less may be performed using SCA wage determinations. DBA work exceeding \$2,000 should be covered by a DBA wage determination. *Service Contract Act (Title 41 U.S.C. 351-358)*.

C. Material and Supply (Line 2)

D. Other Specifically Attributable (Line 3)

Contractor Use of Government Facilities and Equipment. Determine any decision to offer, or not to offer, Government property to a contractor by performing a cost benefit analysis to verify cost decisions are in the best interest of the Government. Involved or complex analyses are not required, particularly when the benefits of one option are relatively clear. Analyses should document the rationale for the decision.

1. Overview

2. Depreciation

3. Cost of Capital.

The cost of capital is a straight-line calculation through the life of the asset and is included for each year the asset is used in the cost comparison period of performance. The cost of capital is calculated by multiplying the nominal rate provided by OMB Circular A-94, Discount Rates to be Used in Evaluating Time-Distributed Costs and Benefits (NOTAL) for each year of the cost comparison. The inclusion of cost of capital should be exceptional.

4. Rent

5. Maintenance and Repair

6. Utilities

7. Insurance

8. Travel

9. MEO Subcontract Costs.

Purchased services (MEO subcontract costs) significantly augmenting current in-house work efforts and included in the PWS require special consideration. When these purchased services are long-term and contain labor costs subject to economic price adjustment clauses, do not escalate the applicable labor portion by future year inflation factors. Additionally, purchased services will be offset for Federal income tax revenue by applying the appropriate rate found in OMB Circular A-76, Revised Supplemental Handbook Part II, chapter 3, paragraph G (NOTAL). Identify and include the costs of contract administration associated with purchased services in the cost category. When incorporating subcontract costs into the MEO, activities will adjust the conversion differential when increasing or decreasing the current level of subcontract performance within the MEO. For example, when existing contract work is proposed to be converted to in-house performance in the MEO, the conversion differential (10 percent) applicable to in-house work is included in line 16 of the cost comparison worksheet. In addition, the conversion differential applicable to contract work is included in line 15 (Adjusted Total Cost of In-House Performance).

10. Other Costs

E. Overhead (Line 4)

F. Additional (Line 5)

G. Total Cost—In-House Performance (Line 6)

Chapter 3—Developing the Cost of Contract Performance

A. General.

Solicitations should specifically state the performance start date. Estimate the date for solicitations that do not specifically state the performance start date.

B. Contract Price (Line 7)

1. Overview
2. Contract Types
3. Tax Exempt Organizations
4. Procurement Preference Eligible Organizations

C. Contract Administration (Line 8)

1. The OMB Circular A-76, Revised Supplemental Handbook, Part II, Chapter 3 (NOTAL) establishes procedures to estimate the number of FTEs to administer a contract, however; the Circular is silent regarding the appropriate grade levels for costing these FTEs. Activities performing the cost comparison will make this grade level determination. Since grade levels performing these tasks will depend upon the technical nature and complexity of the contract review functions, activities should use past experience to determine grades. Activities should consult with local contracting offices and may use previous and current contracts as supporting documentation.

2. Determining contract administration positions for MEO subcontracts. Include the estimated number of contract employees when computing contract administration positions for an MEO that will continue using subcontracted activities. Do not include contract administration positions for MEO subcontracts:

a. When making existing contracts available to a prospective contractor or ISSA provider.

b. During resolicitation of existing MEO subcontracts that are part of a solicitation based on an "any or all" bid or offer where separate line item bids are required for the workloads performed by the in-house workforce and the MEO subcontracts.

D. Additional (Line 9)

E. One-Time Conversion (Line 10)

1. Overview.

2. Material Related Cost.

Excess Material. Upon conversion, if activities decide to transfer excess materials from the function under study to another Navy or Governmental use, state the original material cost less the cost of disposal or transfer. Since such actions would be taken when they would result in a net benefit to the Government, enter net gains as a negative cost of contracting. For costs associated with disposal/transfer of excess Government material, contact the nearest transportation shipping office to determine the applicable rates for packing, crating, handling (PCH) and transportation.

3. Labor Related Costs

a. Permanent Change of Station (PCS) Costs. The following policy applies to MEO positions:

(1) Inclusion of any civilian PCS costs must be fully documented in the cost comparison support file. Activities that anticipate more than 10 percent of affected personnel requiring PCS will contact CNO (N4) for further guidance. When requesting approval, provide the following:

(a) A discussion of the assumptions used in developing the estimated number of PCS moves and anticipated costs. Include an estimate of the number of employees that will participate in exercising their Right of First Refusal.

(b) A list of all DoD installations in the commuting area with a brief description of their employment opportunities. Provide information on the availability of positions available through the Priority Placement Program (PPP) for the appropriate region. If CNO (N4) approves inclusion of PCS costs based on a higher percentage of employees requiring PCS moves, and the competition results in contract award, the following information is required within 1 year after execution of the contract:

1. Number of employees enrolled in PPP
2. Number of employees transferring within the PPP program and not requiring a PCS move
3. Number of employees transferring within the PPP program requiring a PCS move

b. Security Clearances. A CA cost comparison involving employee access to classified materials will include the costs of the investigations required for the appropriate security clearances for contract personnel. The CNO (N4) will provide these costs via response to the CA address indicator groups (AIG) for use in cost comparisons. Since costs of clearances will presumably be the same for both Government and contractor in the out-years, costs are included only on a one-time basis. Use the number of personnel in the MEO to estimate the number of clearances required.

c. One-Time Inventory Costs. Inclusion of a one-time cost to perform an inventory prior to turnover of equipment, parts, and materials to contractors must be approved by CNO (N4) if the estimated cost to perform the inventory is greater than the product of the In-House Cost Estimate's line 1, Personnel, First full Year of Performance total cost multiplied by .005. Submit requests for approval via the chain of command and document the requirement for the one-time expenditure. Submit the following information together with any other information pertinent to the approval process:

(1) The rationale for the kind of inventory planned (i.e., 100 percent versus selected inventory of higher value items) and approximate number of items for inventory, breakdown by categories, and estimated value

(2) Dates and results of the most recent inventories

(3) An estimate of workhours and cost to perform the inventory

d. Unemployment Insurance. The OMB Circular A-76 provides guidance on the accrual of unemployment insurance. Specifically, unemployment insurance is included in the 1.7 percent (Part II, chapter 2, B6f(1)(c), Fringe Benefits or Federal Insurance Contribution Act (FICA) accrual of fringe benefits. Activities will not include additional estimated cost of unemployment insurance as a one-time conversion cost.

e. Separation Incentive Pay will not be included as a cost.

4. Other Costs

5. One-Time Cost Computation

F. Gain from the Disposal/Transfer of Assets (Line 11).

Gain or Loss on Disposal/Transfer of Assets. The estimated disposal value minus the disposal/transfer cost will result in a net disposal value. Enter this as a gain that decreases the cost of contracting. If there is no realization of net gain, it is more cost effective to furnish the asset to the contractor; therefore, do not enter a net loss in the cost comparison. Disposal value estimates are available in OMB Circular A-76, Revised Supplemental Handbook, Appendix 3 (NOTAL). The estimated disposal value will be the net book value in the absence of precise values. The property disposal officer or other knowledgeable authority should make and/or confirm disposal value estimates. Contact the nearest transportation/shipping office to determine the applicable rates for packing, crating and handling (PCH) and transportation.

G. Federal Income Tax (Line 12)

H. Total Cost—Contract Performance (Line 13)

Chapter 4—Calculating the Cost Comparison Decision

A. Conversion Differential (Line 14)

B. Adjusted Total In-house Cost (Line 15)

C. Adjusted Total Contract Cost (Line 16)

D. The Cost Comparison Decision (Lines 17/18)

Chapter 5—Streamlined Cost Comparisons for Activities with 65 FTE or Less

A. General

1. Section 8014 of the FY 99 Defense Appropriations Act (the following which has been repeated for more than a decade) states "None of the funds appropriated by this Act shall be available to convert to contractor performance an activity or function of the Department of Defense that, on or after the date of enactment of this Act, is performed by more than 10 Department of Defense civilian employees until a most efficient and cost-effective organization analysis is completed on such activity or function and certification of the analysis is made to the Committees on Appropriations of the House of Representatives and the Senate: *Provided*, That this section and subsections (a), (b), and (c) of 10 U.S.C. 2461 shall not apply to a commercial or industrial type function of the Department of Defense that: (1) is included on the procurement list established pursuant to section 2 of the Act of June 25, 1938 (41 U.S.C. 47), popularly referred to as the Javits-Wagner-O'Day Act; (2) is planned to be converted to performance by a qualified nonprofit agency for the blind or by a qualified nonprofit agency for other severely handicapped individuals in accordance with that Act; or (3) is planned to be converted to performance by a qualified firm under 51 per centum Native American ownership."

2. While the OMB Circular permits certification of an MEO for an activity containing 65 FTE or less without conducting a formal cost comparison, the law requires Navy activities to formulate an MEO for cost comparison with the private sector for any activity containing 11 or more FTE. Formulating a small MEO should not require extensive study and could be very similar to the existing organization.

B. Procedure.

Refer to SUCCEEDING AT COMPETITION: Guide to Conducting Commercial Activities Studies, appendix A for procedures to conduct an A-76 Streamlined Cost Comparison.